MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAE2014 –SEMINAR IN ANALYTICAL ECONOMICS

(All section/Group)

1 MARCH 2016
9.00 a.m. – 11.00 a.m.
(2 hours)

INSTRUCTION TO STUDENT

1. This question paper consists of **FOUR (4)** pages of **FIVE (5)** structured questions.
2. Answer all questions.
3. Marks are shown at the end of each question.
4. Write all your answers in the answer booklet provided.

Answer all questions.

Question One

Read Passage 1 and answer the following questions.

Passage 1

By Bahadir & Valev (2015)

The last several decades have witnessed massive financial liberalization in developing countries. For the financial markets, the objective has been to foster financial development by inviting international know-how and to reduce the ''knowledge gap''(Goldberg, 2007) in finance between developed and developing countries. In terms of the real economy, the objective of financial liberalization has been to provide funding for capital investment and to stimulate economic growth, thus helping developing countries reach the standard of living achieved in developed economies (Aghion et al., 2005).

While the benefits of financial development are well established, to date there is little systematic evidence indicating whether the financial development in developing countries is catching up with the levels achieved by developed countries. Bridging the financial development gap is likely to help reduce the income gap between countries. If there is divergence, then the gap between developed and developing countries will keep growing, with important ramifications not only for the financial sector but also for the real economy.

This paper extends the existing literature on the determinants of financial development, e.g. La Porta et al. (1997, 1998), Djankovet al. (2007), and Beck et al. (2003) by providing further evidence on the factors that explain the differences in financial development across countries. We investigate whether widely used measures of financial development exhibit convergence or divergence across countries over time. In other words, our particular focus is not on the magnitude of differences in financial development across countries but on the changes in these differences over time. We want to know if financially less developed countries catch up with the financially more developed countries in terms of credit availability.

There is a difference between studying the determinants of financial development and studying financial development convergence. Financial markets have evolved significantly in advanced economies during the last several decades reflecting significant improvements in financial sector know-how. The question for developing countries then is not only whether its citizens can access more financial services over time but whether they take full advantage of the available international finance know-how. To answer that question, we must look at the differences between countries over time, and not only at the growth of financial services within one country over time. In the economic growth literature, the goal is to know if income levels increase and, if they increase relative to developed countries. In the financial development literature, the objective is to know if the access to financial services increases over time and if the increase in a particular country out paces or lags behind the development in the leader countries. Existing literatures have addressed the former question on the determinants of financial development but has paid less attention to the latter question onfinancial development convergence.

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Our contribution to the literature can be summarised in threefold. First, we approach the question with the entire financial structure database (Beck and Demirgüç-Kunt, 2009) using all countries and years for which data are available. Second, we investigate financial development convergence at different levels of economic and financial development. Third, we explore whether the process of convergence can be attributed to institutional changes on the country level or to changes in the efficiency of operation of financial institutions. These estimations are important as institutions are the primary factor for financial development (La Porta et al., 1997) while the efficiency of financial institutions reflects know-how and innovation.

Source: Bahadir, B., & Valev, N. (2015). The title of this article is not provided due to the nature of the exam question. *Journal of Banking & Finance*, *56*, 61–71. doi:10.1016/j.jbankfin.2015.03.001

Based on Passage 1 and answer the following questions.

(a) Suggest a suitable topic for Passage 1. (1 marks)
(b) Write the ***problem statement*** for the topic you have suggested in (a). (6 marks)
(c) What are the ***contributions*** of Passage 1? (3 marks)

(Total: 10 marks)

Question Two

(a) What are the differences between scholarly and popular publication? (2 marks)
(b) Which of the two types of publications in (a) has to be reviewed while conducting economic research? Explain why. (3 marks)
(c) Scholarly writing usually makes an argument that is persuasive to experts in their field. What makes an argument persuasive? (5 marks)

(Total: 10 marks)

Question Three

Reviewing past literatures is part of the process of conducting research. How would you strategise your evaluation of published research? (10 marks)

(Total: 10 marks)

Question Four

Read the ***Abstract*** below and answer the following questions

Abstract

Crime appears to be strictly related to the level of education attained and to individuals' economic and social background. The study examines how socio-economic factors affect the rate of crimes in Pakistan during the period of 1972-2011. This study finds a positive relationship between crime rates and unemployment rate in Pakistan. Higher unemployment diminishes the rate of return of legal activities, and is more likely to increase the return of illegal activities. There is a significant negative relationship between the crime rates and the higher education. More education directly induces high earnings of individuals and may increase both the opportunity cost of crimes and the cost of time spent in criminal activity. The study further assesses that GDP per capita leads to higher crime rates in the long-run but to lower rates in the short-run. Higher income shows that there are greater benefits for criminals as for thefts and robberies. Affluent areas attract more criminals due to the opportunities available to them.

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Finally, there is a positive relationship between the crime rates and poverty in the long-run but there is a negative relationship in the short-run. Poverty may lead to a high level of stress and mental illness which in turn causes individuals to adopt the criminal behaviour. The study posits a caution that policy formulation on crimes in Pakistan should anchor both social and economic factors.

Based on the ***Abstract*** above, answer the following questions.

(a) The topic of this study is "The Socio-Economic Determinants of Crime in Pakistan: New Evidence on an Old Debate". Suggest **5** variables that you will use in your study. Justify your suggestions. (2.5 marks)

(b) What are the data that you can use to represent (proxy) your variables suggested in (a)? (2.5 marks)

(c) Provide **2** suggestion to locate the data you mentioned in (b). (1 mark)

(d) Suggest a research design that you will employ if you were to conduct a study such as the one stated in the abstract above. (4 marks)

(Total :10 marks)

Question Five

Read Passage 2 and answer the following questions.

Passage 2

By Salahuddin, Tisdell, Burton, & Alam (2015)

In Australia, successful digital divide policy should include a social capital framework in its agenda to ensure the digital inclusion of disadvantaged people in rural and regional areas (Notley and Foth, 2008). Internet use has been reported to have positive impacts on areas such as the pursuit of hobbies and interests, shopping, work, employment and provision of health care information (Doong and Ho, 2012). It is also important (Kyujin Shim, 2013) that online social network services supported by rural ICT policy should take into account social capital.

Servon (2002) perceives digital technology as inclusive of certain classes of people while excluding others. The observation of Servon is important in relation to the digital divide between residents of rural and remote areas of Australia and their urban counterparts as well as to disadvantaged persons inurban areas. The elderly, less well educated and the physically or mentally handicapped are relatively lacking in skills or ability to utilize the internet. An associated problem is that it is easier and less costly to enhance the Internet skills of those residing in urban areas than in rural and remote areas. Therefore, even with high speed Internet access, the former may be disadvantaged in accumulating social capital and locked out of networking with those who are relatively skilled in using Internet.

These findings lead to consideration of what is known as 'network society thesis' (Barney, 2004; Castells, 2000). The central idea of 'network society thesis' is that contemporary social, politicaland economic practices, institutions and relationships are organized through and around network structures. The 'network society thesis' provides an understanding of how new forms of Internet use can facilitate an ever-expanding information society. The arrival of the Internet technology has resulted in a significant expansion of network communication.

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There are both positive and negative consequences of the network society (Barney, 2004). The 'network society thesis' provides the background framework in which the current digital divide can be addressed and consideration can be given to the online needs of specific disadvantaged groups thereby enabling their increased participation in the formation of social, cultural and economic capital. A positive view is that web-mediated social participation has the potential to protect the relational aspect of individuals' lives from the stress of time-constraint (Antoci et al. 2012). First, it is less exposed to the deterioration of the social environment that physically surrounds individuals. Second, Internet interaction is less time-consuming than face-to-face interaction and thus encourages social participation. Third, online interactions contribute towards the accumulation of Internet social capital. A salient feature of social capital is that it allows asynchronous social interactions; one can benefit from another's participation through the act of communicating a message or posting a photo even when the person who did this, is offline. Increased internet social capital may also generate positive externalities from the information spill-over to Internet non-users.

However, the social capital effect of Internet may not always be positive. In fact, it may also crowd out social participation when it is massively used for entertainment rather than for social networking. It may even lead to so called 'cyber balkanization[1]' by stimulating the separation of communication into separate groups with specific interests leading to group separation and community fragmentation. In summary, the above review reveals that there is a significant gap in the literature about the association between Internet and the stock social capital in the Australian context although there are plenty of studies that investigate the effects of different factors on social capital.

This study also includes real GDP per capita as a result of improved social capital. It is assumed that higher levels of real GDP per capita boost economic transactions in an economy, which in turn, enhance trust and confidence in the business community, and eventually adds the level of generalized trust. Therefore, we construct and estimate a model where the number of Internet users per hundred people and real GDP per capita are taken as explanatory variables and social capital (proxied by trust) is the dependent variable. The model takes the following form:

$$SC_t = \beta_0 + \beta_1 NET_t + \beta_2 GDPPC_t + \epsilon_t \quad (1)$$

where, SC is social capital proxied by trust, NET is the number of Internet users per hundred people and GDPPC is real GDP per capita measured at constant 2005 US$. The subscript t represents the time period.

Passage 2 is extracted from Salahuddin, M., Tisdell, C., Burton, L., & Alam, K. (2015). Does internet stimulate the accumulation of social capital? A macro-perspective from Australia. *Economic Analysis and Policy*. doi:10.1016/j.eap.2015.11.011

Based on Passage 2, answer the following questions.

(a) Passage 2 examines the effects of the Internet on the creation of social capital in Australia. Discuss the theoretical framework of the study. (6 marks)

(b) Formulate the empirical equation (1) as a vector autoregression (VAR) model. State the assumptions of your model. (4 marks)

(Total : 10 marks)

END OF PAGE.

[1]Balkanizationis a geopolitical term, originally used to describe the process of fragmentation or division of a region or state into smaller regions or states that are often hostile or uncooperative with one another.